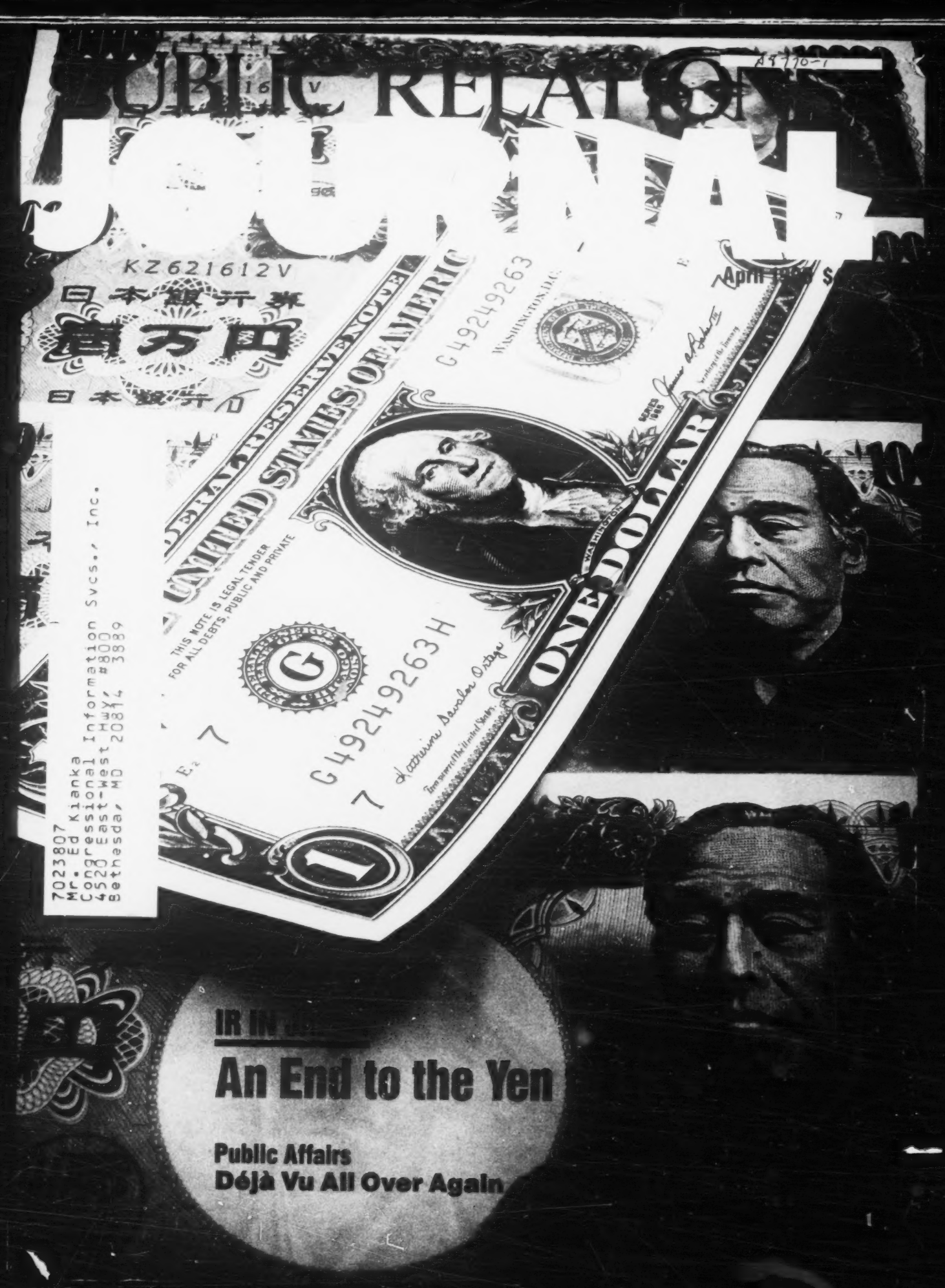
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An End to the Yen
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Déjà Vu All Over Again

PUBLIC RELATIONS JOURNAL

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Facing a resurgence of public scrutiny, corporations are looking to public affairs—a function many cut back during the '80s—for answers.

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Listing on the Tokyo Stock Exchange, once considered de rigueur by many U.S. companies looking to unlock the Japanese market, has lost some of its allure. *Mary Lowengard*

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More than ever before, effective investor relations requires being a savvy marketer. *Melinda McMullen*

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Chester Burger, APR

Cover art: *Murray Alcosser/The Image Bank*

The *Public Relations Journal* is published monthly by the Public Relations Society of America, 33 Irving Place, New York, NY 10003.

Persuasion and the end of laissez faire

"Roger and Me" has certainly been the focus of a lot of attention during the past month. Still, while a number of articles have touched on the ethics of the movie, none has so thoroughly dissected Michael Moore's genius for propaganda as Chet Burger's piece in this issue *(page 40)*. Some counselors have had a more positive reaction to the film. Alan Metrick, partner in David M. Grant & Partners Inc., recently forwarded a copy of a memo he sent to his clients. He calls "Roger & Me" "thoroughly enjoyable and engrossing." Metrick warns clients that the movie might offend some, and adds that he's not sure whether he personally agrees with some of its themes.

But, he says, "from time to time, something appears in the mass media that (usually inadvertently) serves as a wonderful lesson in the practice of public relations . . . the film is peppered with terrific object lessons in what *not* to do when faced with a film crew . . . Nobody looked good in the movie, and I'm sure that's partly because that's what the director wanted . . . At one end of the spectrum we see people in the film trying to stonewall the camera, acting officious or nasty with the camera, or very obviously lying at the camera. On the other end, some people simply ran off at the mouth . . ."

People will always love satire, as long as they themselves aren't the objects of it. And maybe after eight years of being glamorized by the media, business is once again becoming a target for satire. Certainly, activism is on the upswing.

Which brings us to Lloyd Dennis' article on public affairs *(page 14)*, titled "Déjà Vu All Over Again" in tribute to Yogi Berra. Dennis suggests that business should not be surprised to find itself floundering for answers to public demands for accountability, having downsized public affairs staffs during the laissez faire '80s.

One result of another Reagan legacy—greater self-sufficiency at the state level—has been more state taxes. While corporate practitioners and large public relations firms may not be particularly threatened by 5 to 8 percent professional service taxes, small counselors may stand to lose precious clients. A report begins on page 7.

With all of the nail-biting over the recent shakiness of the Tokyo Stock Exchange, Japan has also gotten a lot of attention—even more than usual—in the past few weeks. Although U.S. companies listed on the TSE weren't really affected, many recently interviewed *(page 18)* say the bloom is off the Tokyo rose, at least when it comes to listing.

You may have noted an ad in last month's issue promoting IABC seminars—and, if you receive *Communications World*, you'll see a PRSA seminar ad in its April issue. The PRSA Board believes that members of both organizations stand to benefit from such cooperative efforts.

Karlene Lukovitz, Editor

PRSA Public Relations Society of America
33 Irving Place, New York, NY 10003
(212) 995-2230

The Public Relations Society of America (PRSA) is an individual membership professional society of 14,983 public relations practitioners. Its major services to members include programs of Professional Development and Accreditation, an Information Center, publications, tracking of issues of national concern, and promotion of ethical practice through adherence to PRSA's "Code of Professional Standards." PRSA's mission is "To serve the public need for understanding and cooperation among its diverse interests by fostering high professional and ethical standards for all those practicing public relations."

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BRIEFINGS

EDITED BY ADAM SHELL

Service taxes: Practitioners struggling to fight back

Lack of unity, awareness, funds hamper local efforts

Washington, D.C. and Connecticut were hit by professional service taxes last July. In February, Massachusetts was holding hearings on taxing professional services and battles were heating up in Kansas and Missouri. In Kentucky, a bill proposing a 5 percent tax was dropped in March.

Amid these events, many counselors recently affected by state taxes on public relations say they fear that communications problems and lack of united opposition could hinder the field's chances of halting the spread of these taxes. "I'm distressed because the PR community is not getting together to fight this," says Ian Kerr, chairman of Kerr Kelly, in Greenwich, Connecticut. "We've done a bad job of communicating our position."

As states grope for new ways to raise revenue, more and more are looking at taxing various professional services. To date, such taxes, which range between 3 and 8 percent, have been levied in at least 10 states and are being considered in nearly 20 more.

Unequal treatment

Public relations is not taxed in all states in which service taxes exist. On the other hand, in some states, public relations is taxed while some other professional services are not. In Connecticut and Washington, D.C., for example, public relations firms are taxed but time and space advertising are exempt; Connecticut also exempts lawyers and accountants. Often, public relations is not specifically mentioned in a bill, but is included under general language, such as "management and consulting services."

Practitioners and lobbyists alike agree that professions that don't take a strong stand on their own behalf are the ones that end up being taxed. In Connecticut, when a legislator was asked why lawyers and others were omitted from the bill, he replied: "Because they have a lobby here—it's as simple as that."

During the 1980s, professional service taxes were defeated in at least 19 states. However, there is nothing to keep states from proposing such bills again. In Massachusetts, a bill to extend a 6 percent "sales and use tax" to public relations and other professional services was defeated this past summer but resurrected in a broader version in December. Also, states with service tax laws that do not currently affect public relations could try to extend their reach.

One state's fight

Many counselors argue that the taxes are an administrative nightmare that forces them to raise client fees and makes it difficult to compete with firms in neighboring states not subject to such taxes. The taxes could even force some firms to relocate to other states, they warn.

In Massachusetts, where the bill calls for advertising to be exempt, Kitty Ward, president of K. Ladd Ward & Company, Hingham, recently testified at a hearing before the Joint Taxation Committee on behalf of the PRSA Boston Chapter and the Publicity Club. "We learned from the defeats in other states, and we're prepared," Ward says.

Among the issues she raised at the hearing: How will legislators define the boundaries of public relations (will lobbyists and political consultants be included)?; Will non-profit public relations be exempt?; Will the revenue justify the

Continued on page 12

A kindergartner at a grade school in Mississippi brushes up on his reading skills using IBM-donated software, Writing to Read.

Business taking aggressive approach in effort to speed school reform

As stakes rise, corporate contributors demand greater voice

Worried that the present education crisis will get worse before it gets better, American business is stepping up its war on illiteracy and other ills that plague the nation's school systems. But unlike the past, when simply handing over money to schools was considered enough, hundreds of U.S. corporations are now demanding a greater voice in deciding what reforms are needed and how they will be implemented. Many, in fact, are now refusing to donate money unless educators agree to restructure the system as business sees fit.

"We're past the stage where we just hand out money to schools," says Dr. Julie C. Stafford, educational consultant for the Cray Research Foundation, a company that builds supercomputers, and director of the Wisconsin Educational Partnership Initiative, an organization whose mission is to improve math, science and technology instruction. "We just didn't want to be like Santa Claus any longer. Unless a

school or district commits to change, they won't get any money."

"Who will we hire?"

Business' new no-nonsense attitude toward education—termed "market-driven philanthropy" by some business leaders—is also being reflected in an increased commitment to precollege education. The philosophy is simple: unless "Johnnie" learns the three R's in grade school, his chances of finishing high school, graduating from college and entering the work force with marketable skills are slim, at best.

For business, the stakes in improving the educational system have grown enormously. In the last few years, more than 300 studies and reports have been published that paint a picture of an educational system on the brink of disaster. The horror stories are by now familiar, though still shocking: three out of five 20-year-olds can't add up their own lunch bill; high school graduates are unable to fill out a job application; the average American business school graduate knows about as much math as the average eighth grader in Japan.

As the skill level of job applicants continues to decline, many companies fear that they are losing their competitive edge against foreign rivals. "There is a widening gap between who's out there and what business needs," says Diana Wrigden, director of precollege programs for the Council for Aid to Education, a non-profit organization that promotes private support of education.

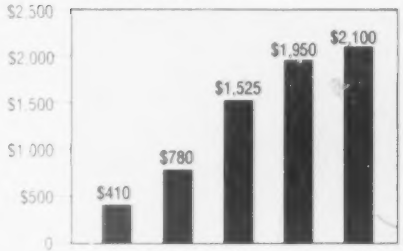
As a result, according to Myrna Plost, director of education for ARCO, virtually every U.S. company is now asking itself the same question: "Ten years from now, who are we going to hire?"

Partnerships flourish

Maintaining that educators are either unable or unwilling to overhaul ineffectual approaches to educating the nation's future scientists, executives and scholars, companies are increasingly searching for their own answers. "Enlightened business leaders and educators are beginning to realize that educators can no longer do the job by themselves," says Don Adams, editor of "Business-Education Report," a newsletter that promotes business involvement in education.

To protect their bottom lines and polish their corporate images, companies are pouring millions of dollars into the nation's classrooms. "We want to change the system," says Stafford, "to make sure there are qualified employees for the future." But current programs like Adopt-A-School, business leaders say, are no longer enough. Today, partnerships between business and education are viewed

Corporate contributions to education *($ millions)*



Source: Council for Aid to Education, The Conference Board

Between 1986 and 1988, contributions to education grew 4 percent, on average. These moderate increases follow a decade of unprecedented expansion, when corporate giving rose by an average 15 percent per year.

In The Past, Getting Information Required A Lot Of Running Around.

as the key to educational reform. Some companies are even entering into partnerships with life spans of 10 years or more, a clear indication that business leaders are not treating the issue lightly.

Wayne E. Heiden, chairman and CEO of Allstate Insurance Company, told about 600 business leaders and educators attending the company's Labor Force 2000 II Forum, held in Washington, D.C. in February, that the preconceptions and barriers that divide the groups must be broken down if partnerships are to be successful.

"We can draw a line in the dirt and say, 'You stay on your side, and we'll stay on ours.'" Heiden said. "But what we really need is to rub out the line, draw a big circle instead, and invite everyone in."

Emphasis shifts to precollege

In 1988, corporate contributions to education totalled more than $2.1 billion, and it is estimated that giving rose by about 4 percent in 1989, according to a survey conducted by the Council for Aid to Education. "Our schools, colleges and universities are now receiving over twice the financial support from the business community that they received a decade ago," notes Arnold R. Shore, president of the council.

U.S. companies, however, are no longer just donating money to the country's top research universities. Instead, a greater percentage of grants and philanthropic dollars are now being funneled into precollege education in an effort to prepare students for the real world early in life. Corporate contributions to grades kindergarten through high school increased from $33.9 million in 1987 to $51.5 million in 1988. Contributions to K-12, however, are still less than 9 percent of total giving to education.

"If you haven't cultivated the kindergarten thru 12 area, you're not going to have students who are prepared for college," explains Mary E. Leslie, director of the Pacific Telesis Foundation, which recently started a $2 million "Education for the Future Fund" that calls for school site empowerment, accountability and parent involvement as the key conditions for improving grade schools.

Funds and in-kind services

According to *Partnerships in Education Journal*, a monthly magazine that focuses on business/education partnerships,

Educators grade schools B-minus

The nation's public school system received a B- on its report card from U.S. school administrators. In a survey of 385 school administrators conducted by Allstate Insurance Company and the American Association of School Administrators, 68 percent gave public education a "B," 23 percent a "C," 7 percent an "A" and 2 percent a "D."

Other study findings:

- **Forty-four percent of administrators called for more corporate involvement. More than half (61 percent) believe companies should contribute money to all educational levels. (Precollege education was cited most often.)**
- **Educators said companies could help overcome education problems by supporting tax increases, contributing equipment, and offering jobs to students.**
- **Many educators think that CEOs are likely to see "little future improvement in the problem of finding and hiring employees with good basic skills." □**

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there are currently about 140,000 ties between businesses and schools. The programs being financed include combating illiteracy, bolstering the recruitment of minority students, providing leadership and technical training for teachers, reducing the dropout rate, using computers as a learning tool, creating innovative programs for urban schools and many more.

For example, Coca-Cola has cited education as its major philanthropic cause for the 1990s. Last November it announced a $50 million commitment to education over 10 years. "We believe that an investment in education is a tremendous investment in business," says Mark Preisinger, a Coca-Cola spokesperson.

IBM recently donated $20 million in computers and technical support to the California Department of Education, as well as one of its computer programs, Writing to Read, to the state of Mississippi. Pizza Hut started a nationwide reading-incentive program in more than 600,000 classrooms for students in the first six grades.

Holding schools accountable

More than ever before, business is making sure that its money is being put to good use by holding schools accountable for results. "Until the schools feel the pressure," says Stafford, "they're not going to change." Many companies, in fact, now make it a habit to continually ask themselves: Is this really working?

In many cases, companies are requesting that schools replicate successful partnership programs. Pacific Telesis will showcase its five-year "Education for the Future" project at three California elementary schools in this manner.

A short-sighted view?

Some educators, however, are uneasy about the growing influence of business in public education. David Lewin, a business professor at Columbia University, for example, argues that such interference is nothing more than a "band-aid" cure for a problem that, he believes, should be solved not by big business, but rather by public policy. "This business involvement with schools may delay us from getting down to more fundamental issues," Lewin says. He also questions whether companies really have the best interests of the students at heart. "Their argument is a business argument," he contends, "not an altruistic argument." He maintains that companies such as IBM, which donate products to schools, are "attempting to build the identity of their company in the minds of students."

Business leaders contend that educators don't know what business wants and that they are unwilling to make the tough choices required to help an ailing system get well. Business, they say, is simply filling the vacuum. "If educators can't do the job, then other people are going to step in," says Stafford. Students, she says, are simply not receiving the training necessary to succeed in the next decade. "Schools," she asserts, "are not preparing students for a high-tech world."—*A.S.*

Establishing a successful partnership

Sybil Yastrow, Ph.D., regional superintendent of the Lake County School District in Illinois, helped form a successful partnership with business, government and educators aimed at curbing the county's high dropout rate. In a presentation at Allstate's Labor Force 2000 Forum II conference, held in Washington, D.C. in February, she offered the following tips on how educators can establish successful partnerships:

- Identify a business or group with a common concern.
- Seek involvement with the CEO.
- Establish a shared vision and value system with the business or group.
- Communicate on a regular basis.
- Encourage the business or group to identify a project that it calls its own.
- Identify the expectations and expertise of the members of the business.
- Establish a time line and an evaluation system.
- Keep business' vision in mind.
- Don't get discouraged. Change takes time.
- Be willing to take risks and to make changes.
- Plan, implement, evaluate, plan, assess—and replan. □

Broadcast faxing gaining popularity

But some practitioners are leery of sending bulk transmissions

As facsimile transmissions become more and more common in the business world, a growing number of "broadcast" or bulk faxing companies are marketing their services to public relations divisions and firms. Investor relations pros, in particular, have embraced the method to speedily transmit financial data to investors and analysts. However, many practitioners haven't yet investigated the market, and some say they're wary of alienating the media by deluging them with faxes.

"More and more people are popping up with broadcast fax services," says Brad Sullivan, group manager of Ketchum Public Relation's Capital Services Group. "I've heard of some PR firms that are doing it—it's certainly more in vogue."

"In the past month, I've been solicited by several companies offering broadcast fax services," agrees Thomas M. Reed Jr., senior vice president, Braun & Co., in Los Angeles. "We do a fair amount of faxing ourselves, but not enough to justify having an outside company do it."

Relevance the key

To send a broadcast fax, a document is loaded into a fax machine's memory or into a computer with fax capability, and then sent automatically and simultaneously to a list of preprogrammed facsimile numbers.

Sullivan says his group generally does its own broadcast faxing to "first-tier" recipients—those with a pressing need for financial information about a company. For small- to mid-capitalized companies, a list has between 20 to 30 names of analysts and wire service contacts; for larger-capitalized companies, a list ranges from 30 to 50 recipients.

ICN Pharmaceuticals Inc. sent 53 news releases via the Southern New England Telephone (SNET) broadcast fax service in 1989, according to Jack Shool, vice president public relations of the Costa Mesa, California-based company. He says the releases sent in this manner are "not superfluous," but contain "breaking news" such as earnings information, product approvals and acquisition announcements.

Each release was faxed to about 50 recipients, all of whom agreed to receive information in that fashion before getting their first fax. "A relationship has been established," Shool says. "It's not just 'cold faxing.'"

ICN originally sent these faxes from its own office, but switched to SNET because it would be more efficient, Shool says. At an average cost of about $1.75 per fax, a broadcast to one list would cost

IR in Japan

An End to the Yen to List?

Listing on the Tokyo Stock Exchange works for some U.S. companies breaking into Japan, but it's no longer considered de rigueur...

Mary Lowengard

Ask the investor relations director of any U.S.-based public corporation currently implementing an investor relations program in Japan, "Why?" and you'll get the same response Willy Sutton gave as the reason he robbed banks: "Because that's where the money is."

Any company functioning on a global basis is acutely aware of this. With a gross national product on the order of $2.9 trillion and per capita income calculated to now exceed $22,000, Japan is the world's leading capital exporter.

"If you're going to be a multinational or international business, you have to realize there is benefit from going to Japan and other foreign capital markets, because it comes back to you in additional exposure for doing business later on," says Russell J. Page, senior vice president and investor relations executive at NCNB Corporation, the seventh largest banking company in the United States, headquartered in Charlotte, North Carolina.

"The reason we're in Japan is because it's a key source of capital to the world," says Franklin T. Jepson, corporate vice president at Bausch & Lomb Inc., Rochester, New York. "Even though we may not need the money today, we may wish to do something creative with financing in the future."

Jepson notes that the numbers speak for themselves: "If you watch the statistics, such as those in the Treasury Bulletins, it is clear that Japan's aggregation of capital and how it is channelling that capital to the rest of the world, combined with the fact that the Japanese went long in their purchase of U.S. equities in October 1987, all indicate that the Japanese are going to be buying more U.S. securities, both debt and equity, over the long term. And that's a force not to be ignored."

The numbers are indeed compelling. Growth of Japanese interest in U.S. equities is "explosive," according to David G. Strongin, director, international finance, at the Securities Institute Association (SIA). Japanese investment has driven the Asian share of activity from under 15 percent in 1984 to 20 percent in 1986, 30 percent in 1987 and 35 percent in 1988. Japan far and away leads the Asian money centers, with 91 percent of U.S. stock in the Far East being held there.

In 1988, Tokyo again ranked first on Technimetics' "Global Money Map" in its International Target Cities Report of cities ranked by total equities under management, with a whopping $1.8 trillion—more than double the combined amounts managed in the high-powered finance cities of New York, London and Geneva.

Daunting obstacles

In short, for investor relations directors of U.S. and European corporations, Japan and its considerable investment capital controlled by institutions, corporations and individuals are extremely tempting. But Japan also represents formidable challenges.

There are the language and cultural differences, for starters. Investor relations, still a developing discipline in this country, has until recently been all but unknown in Japan. And while Japan may be a major source of capital to the world, its own capital markets are grossly underdeveloped by American standards. Dynamic asset allocation techniques—the active trading of equities in the marketplace—has yet to become common practice among Japanese money managers.

The U.S. and Japanese financial markets have been drawn closer together, according to Stephen H. Axilrod, vice chairman at Nikko Securities, by three factors: long-term capital outflow from Japan, the establishment of Japanese securities firms in U.S. markets, and the necessary opening and diversification of Japanese markets. "We are now in a transitional stage during which Japan is establishing itself as a key player in international finance," Axilrod explained during a hearing before the Securities Subcommittee of the U.S. Senate Committee on Banking, Housing and Urban Affairs, last June.

The operative word here appears to be "transitional."

Furthermore, the expense of instigating and maintaining a Japanese investor relations program approaches the astronomical, and results are nearly impossible to measure in hard dollars—or yen.

However, given that many companies feel strongly that they can't afford *not* to be in Japan, the real issue comes down to determining the best way to establish a beachhead.

There are several schools of thought among IR practitioners, both corporate and counseling, when it comes to how to form a fruitful financial relationship with the Japanese.

There is a "don't bother even trying" school. There is the "yes, bother—but don't bother listing" school. And there is the "don't bother if you aren't intending to list" school.

To list or not to list

The Tokyo Stock Exchange (TSE) is the world's single largest equities marketplace, with a total capitalization on the order of $3.6 trillion. Trading value in 1988 amounted to $2.04 trillion, compared with New York Stock Exchange (NYSE) value of $1.37 trillion.

About 70 percent of the equities listed on the Tokyo exchange are owned by institutions or corporations. TSE stocks are typically characterized as low-yield,

"Nine out of 10 companies listed shouldn't be, because they're not prepared to commit"

high price-earnings (PE) ratio equities.

As of the end of 1989, 119 foreign companies were listed on the TSE; 70—or close to 60 percent—were U.S.-based. In comparison, there are currently 89 foreign companies listed on the NYSE, 13 of which joined in 1989 and nine of which are Japanese-based companies.

Though the number of foreign companies listed on the TSE has increased tenfold since 1984, there has been a considerable fall-off in the number of companies listing in the past year. The boom years for listing were between 1985 and 1988, when 99 companies signed on, a result of several factors.

First, according to the SIA's Strongin, when the Japanese government liberalized access to foreign markets in the mid-1980s, a pent-up demand for foreign securities was released, manifest in the "spectacular" capital flows out of the country. "Because the U.S. is the world's largest and most inviting market, it poured this way," he says.

At about the same time, a number of regulatory measures simplified Japanese listing requirements and reduced costs. The rally in listing activity was further fueled by competition among the so-called "Big Four" (Daiwa, Nikko, Yamaichi and Nomura), the dominant Japanese securities firms. These banks went after American firms for their listing business, hoping this would pave the way for longer-term, lucrative banking relationships.

Interest levelling off

Consultant William A. Clark of IR Japan, a Tokyo-based IR firm, asserted in his Autumn 1989 "Japan Insight" IR newsletter that "the boom of the last four years was entirely generated" by the Big Four, which have since quelled their campaigns to entice foreigners to list.

Others cite different factors for the cooling of listing fever. "The process for getting listing approval is ominous: labor-intensive, costly and very time consuming," notes NCNB's Page. (On the bright side, he adds, any subsequent activity is handled efficiently.)

"All of the major companies with extensive multinational networks in Japan have already positioned themselves through listing," says Jeffrey R. Knakal, vice president of investment banking at Daiwa.

But, continues Knakal, it's also true that "the fundamentals of share purchases haven't been all that favorable, given the yen appreciation."

A rude awakening

The strategic justification for U.S. companies for instigating programs that ultimately led to listing on the TSE was that they were necessary to establish a presence and to remain competitive in an ever-diversifying global marketplace. In the mid-'80s, companies looking to increase their financial, operational or investment business relationships in Japan, tended to consider involvement in the Japanese securities markets inevitable.

But many who once considered listing in Japan a manifest destiny have since made the unhappy discovery that the list of tangible IR benefits from trading on the TSE can be very short.

This awareness began long before the recent plunge in the Japanese stock market, which has had little impact on U.S. stocks listed on the TSE. (Foreign stocks on the TSE follow their home markets, not the TSE, according to Denise Lee Hurley, assistant vice president, corporate finance for Yamaichi International America.) The real problems are ongoing. For example, even on a good day, volume for U.S. stocks tends to be anemic. Currency plays frequently drive the market—in fact, the majority of Japanese purchases of U.S. equities are executed in New York. The high PE ratios of Japanese stocks turned out not to be a contagious condition, but rather a function of the low float of Japanese stocks, cross investment programs and understated earnings. Tokyo is an expensive place to trade compared to New York, where commissions can be negotiated and transaction taxes, transfer fees and duties avoided.

Worst of all, however, is the cost of listing itself—the factor cited by many IR directors as the main reason they chose not to pursue this option. While somewhat more manageable, a company setting out to list can count on spending at least $200,000 for initiation fees and another $100,000 for continuance costs.

Add to these the ongoing costs of doing IR, which can run upwards of $150,000 per year. In addition to travel expenses, there are significant costs involved for professional fees for translation of documents required by the Minister of Finance, as well as legal and accounting expenses. There are also time costs involved. "Let's face it, any way you cut it, it's a week-long trip" to Japan, says one IR director whose company has chosen not to start an IR program in Japan.

One of the primary justifications for

In a recent article titled "You Can Make Money in Japan" (February 12) *Fortune* listed 18 U.S. corporate giants and their Japanese product sales for fiscal 1988. Sixteen of the companies listed are publicly traded. Of these, only the five indicated by a # above are *not* listed on the Tokyo Stock Exchange. The exceptions are Digital Equipment Corporation, which does not meet listing requirements as it does not issue a dividend; Coca-Cola, which holds periodic meetings in Japan and maintains contact with Japanese investors through its bottlers; and NCR, which is listed through its subsidiary NCR Japan and also offers programs in New York. The other two companies on the list, Pfizer and Caterpillar, both have considered listings on an ongoing basis but have decided not to at the present time, according to their spokespersons.—*M B L*

American Giants in Japan: Who's TSE-Listed?

COMPANY	SALES* in millions, fiscal 1988
IBM	$8,800
Exxon	$6,700
Mobil	$5,900
Coca-Cola #	$3,400
Caltex•	$2,600
Du Pont	$791
Eastman Kodak	$750**
Motorola	$750**
Caterpillar #	$741
Texas Instruments	$706
Hewlett-Packard	$613
NCR #	$536
McDonald's	$535
Amway•	$522
Digital Equipment #	$510
General Electric	$506
Dow Chemical	$486
Pfizer #	$438

*Adjusted to exclude Japanese share of joint ventures
Source: ASIA Advisory Service, ** Fortune estimate

Not listed on TSE • Not publicly traded

listing—the ability to make public offerings—has been rendered obsolete by a recent Ministry of Finance ruling that permits unlisted companies to offer shares denominated in dollars in Japan. The first U.S. company to do so was Coastal Corporation, a diversified energy company based in Houston, Texas, which announced in September 1989 that it had filed for an offering of eight million common shares, of which two million were earmarked for Japan. The offering, handled in Asia by Nomura, was ultimately oversubscribed.

Interestingly, according to a company spokesman, Coastal Corporation currently has no operations or product sales in Japan.

Then, too, there is the "f"-word: flow-back. This occurs when the placement of shares in a foreign domicile are held for a while and then sold back to the home exchange. There are stories of foreign placements on the TSE that have beaten company officials back to the home market. "The stock flies back faster than you can," notes one IR director. Use of market-makers can limit the occurrence of flow-back; however, this requires an active capital commitment by a sponsor.

One TSE requirement is the guarantee of a minimum of 1,000 shareholders at the time of initial listing. As of May 1989, for 99 foreign companies listed on the TSE, the median number of shareholders was 1,959. However, 50 of those companies had fewer than 1,000 shareholders. As of December, for 113 companies listed, again more than half—63 companies—had fewer than 1,000 shareholders as of their most recent record date in Japan.

Payoffs down the line?

Given 20-20 hindsight, several IR directors recently interviewed said that they would not again recommend listing on the TSE to their managements, though they would still pursue programs in Japan for marketing and recruiting purposes. "We are hoping the benefits are somewhere down the line," says one whose company listed in 1987.

"People are finally getting smarter about allocating their resources—time, money, energy—to Japanese IR programs," observes Doremus Executive Vice President Robert D. Ferris. "While an IR director must always be mindful of the capital markets no matter where they are, a strategic approach is warranted. It's truly an underdeveloped market with a substantial communications barrier to entry."

Still, many investor relations directors at TSE-listed companies vigorously defend their decision. Frank N. Hawkins Jr., vice president-corporate relations and planning at Knight-Ridder Corporation in Miami, a $2 billion information services and on-line information company, says he has been quite pleased with the results of the past 18 months. Describing himself as "practically a commuter," Hawkins combines product and financial marketing tasks in his twice-yearly trips.

The primary impetus behind listing Knight-Ridder was to support the company's vast and growing network of information businesses in Asia. Hawkins asserts that flow-back does not faze him: He simply returns and issues additional stock in Tokyo. What does impress him is the opportunity presented to develop long-term relationships that will benefit both the company's product sales and equity growth.

Among other reasons forwarded for joining the TSE is that for companies with

Japanese institutional investors attending a joint presentation meeting in Tokyo for Lowe's Companies, Inc. and the Stanley Works, arranged by The Nikko Securities Co., Ltd.

Working around the Big Four

"The Nikko Securities Co. International, Inc. is pleased to invite (name of company) to participate in a financial presentation meeting for a limited number of Japanese institutional investors in New York. The meeting will be hosted by Nikko Securities and can be arranged at your convenience."

Thus begins the packet of materials Nikko Securities prepares for prospective clients it is actively soliciting for listing business.

Competing against the Big Four securities firms—Nikko, Yamaichi, Daiwa and Nomura—is tough for consulting firms specializing in investor relations. Not only do the Big Four take on the responsibility for setting up the initial presentation meetings for companies interested in testing the waters in New York; they also foot the bill. Once the show moves on to Tokyo, however, the company is expected to pick up the expenses (which can be on the order of $35,000) for larger presentations at one of the major Tokyo hotels.

Once a company is listed, an annual trip to Japan is recommended, says Denise Hurley at Yamaichi. This would be sponsored by the listing bank and include a large luncheon presentation, a presentation at the Japan Securities Analyst Association, plus one-on-one meetings with large institutional investors. Hurley says the arrangements are made through Yamaichi foreign stock salespeople, "so in essence, the investors are prequalified." She also recommends that companies "amortize" the cost of the trip by arranging to meet with their Japanese bankers.

So where does this leave the outside investor relations consultant? A handful are managing to carve out niches around, though rarely through, the work of the Big Four.

The Big Four do a terrific job of turning out their own clients, say several consultants, but do not do such a good job of targeting decision makers. They also don't provide media relations support. And for smaller companies interested in broad exposure, an independent consulting firm may be the only recourse, especially if they don't meet listing requirements.

Among the hot independents now in the Japanese IR field are the financial and investor communications firms of Dewe Rogerson, Gavin Anderson & Company, Georgeson & Company and G.A. Kraut Company.—*MBL*

extensive operations in Japan, listing demonstrates to the Japanese a commitment to their country and marketplaces, both product and financial. More than one IR director also mentioned that there is a benefit for doing business with the Japanese in the United States: A Tokyo-listed company has, in effect, the Minister of Finance's "seal of approval."

"Clearly, listing serves to enhance and increase the profile of the company with Japanese investors because it involves an approval process by the TSE and Minister of Finance," states Daiwa's Knakal. "In a sense Japan, in an institutional context, has passed judgment."

In other words, listing on the Tokyo exchange, while it may have questionable financial merit, can be very effective public relations.

Digging in for the long-term

R. Lee Anderson II, senior vice president, investor relations at American Family Corporation, a Columbus, Georgia-based insurer, is a strong advocate of listing. But, he cautions, it isn't necessarily the right move for many companies. "Nine out of 10 companies currently listed shouldn't be," he asserts, "because they're really not prepared to commit the time and money in the Japanese market that it takes to succeed. Unless the company is a major household name, there's little chance it will be followed or chosen as an investment."

American Family's involvement in Japan is substantial. About 80 percent of its business is in that country. "The Japanese are very insurance oriented," explains Anderson, who points out that AF is the third most successful U.S. corporation in Japan. The Japanese insure approximately 20 percent of the population and, more important, one out of every three stockbrokers has an American Family policy. The company is also the 75th largest recruiter of Japanese college graduates among all companies in the country.

"Until recently, investor relations has been all but unknown in Japan"

No wonder, then, that Anderson's IR program is intense. He spends 30 to 45 days per year in Tokyo, and has personally escorted groups of U.S. money managers to Tokyo and other Japanese financial centers every other year since 1981. He boasts of the attendance he is able to attract to his meetings: "In 1987, I had 980 people in Tokyo and 450 in Osaka during a typhoon. We expected 600, but the weather forced some cancellations."

By sponsoring his own meetings, Anderson says he can broaden attendance to include smaller but still significant money management and brokerage houses. However, he does advise those starting up in Japan to rely at first on one of the Big Four banks or the up-and-coming "Little Two:" New Japan and NKK.

"In dealing with the Japanese, I've learned patience," Anderson notes, adding that the only way to run a successful investor relations program in Japan is to "take the Japanese approach—look at the long term. It is simply not worth it from a short-term point of view."

Alternatives to listing

For those who are unconvinced of the ...acy of listing on the TSE, or whose ...mpanies do not meet the stringent entry requirements *(see box, page 24)*, there are alternatives for tapping into Japanese investment potential.

Published lists of sponsored meetings show that more than half of the companies holding presentation meetings in Tokyo in '89 weren't listed on the Tokyo exchange. In combination with one-on-one appointments, these presentations can effec-

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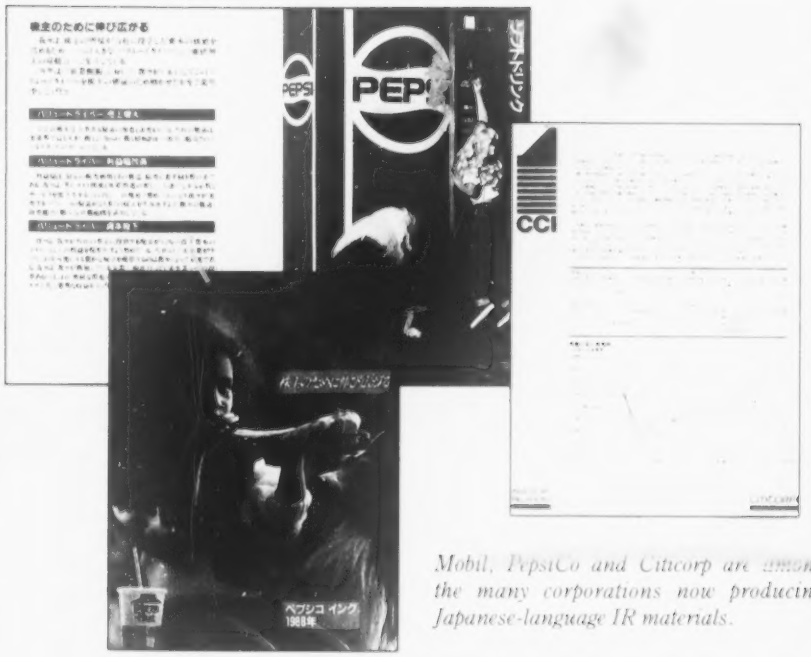

Mobil, PepsiCo and Citicorp are among the many corporations now producing Japanese-language IR materials.

tively pique the interest of Japanese investment managers.

All indications are that the Big Four are still pleased to assist companies desiring a presence in Japan, whether or not they list. Hurley of Yamaichi International America describes her program as focusing on medium and smaller companies with "logical reasons for being involved in Japan—plans for expansion, subsidiary activities or specific business purposes." Nikko Securities Company Assistant Vice President Michael H. Brown is currently recruiting among U.S. companies in the Southwest that previously weren't interested in expanding their IR programs internationally but are in a better position to do so now that oil and industry are coming back in that area.

Stanley Works, a $1.5 billion manufacturer of hand tools and hardware-related products, is one such company. For the New Britain, Connecticut-based company's Vice President of Public Affairs Ronald F. Gilrain, the key is awareness and name recognition. He describes his company as a long-term player that has been developing markets around the world since the end of the 19th century. The company currently has operations or ventures not only in Japan but also Singapore, Hong Kong, Australia and Taiwan, with China "on hold."

According to Gilrain, Stanley decided to implement an IR effort in Japan to enhance its visibility: "We saw an opportunity to combine a business presence with investment awareness that we hope will grow." But Gilrain believes this can be accomplished, at present, without listing.

What about working Japanese IR from the United States? Until recently, some consultants, including IR Japan's Bill Clark, scoffed at the notion of cultivating contacts in New York, a practice actively encouraged by the Big Four, particularly as part of a company's "test the waters" effort.

But fewer and fewer are scoffing now. "You don't have to be listed to access the Japanese markets," says Hill and Knowlton Vice President Paul Whitelaw. One reason is that more and more investment decision powers are being delegated to New York-based representatives of Japa-

Tokyo Stock Exchange, foreign section
1984–1989 trading volume and value

	# of companies listed at year end	Daily average volume (000s)	Daily average value (m ¥)
1984	11	16	324
1985	21	461	2,994
1986	52	1110	4,129
1987	88	2756	12,661
1988	112	792	2,913
1989	119	1928	11,235

Source: Tokyo Stock Exchange, courtesy of Nikko Securities

After increasing from between 69 percent to 147 percent each year between 1984 and 1987, the rise in the number of foreign companies listing on the TSE dropped to 27 percent between 1987 and 1988 and to only 6 percent last year.

Many non-Japanese companies cannot meet the TSE's stringent listing requirements (listed at right).

Tokyo Stock Exchange:
Minimum requirements for listing foreign stock

• Liquidity requirement:	"The stock is . . . required to have a good liquidity in the home market."
• Shareholders:	Minimum 1,000 in Japan
• Continuous business operation:	5 years
• Shareholder's equity:	¥ 10 billion minimum
• Net profit before taxes:	¥ 2 billion minimum for past 3 years
• Dividends:	Record of dividend paid for past 3 years
• Minimum shares listed:	At least 20 million for stock traded in blocks of 1,000; 2 million for stock traded in blocks of 100; 1 million for stock traded in blocks of 50; 200,000 for stock traded in blocks of 10; 20,000 for stock traded in blocks of 1

Source: Tokyo Stock Exchange

nese investment banks. The typical format for a U.S.-held meeting is a luncheon, with arrangements orchestrated by one of the Japanese banks.

Still, though many are choosing these alternatives, listing can still be a viable option for companies with deep pockets and staying power. Even Clark, who as recently as July of last year would openly declare that "listing is a fraud and a sham," has softened his stance. "Things are changing," he says, "and there is probably now an opportunity for companies to engage in cost-effective IR, due to progress made by the Japanese politico-economic system internationally."

Learning curve continues

Clearly, for IR officers at U.S. corporations and for investment managers at Japanese institutions, the learning curve in the 1980s was steep. For many, it was pricey, as well. As few as two years ago, IR programs in Japan were being touted at National Investor Relations Institute meetings as "a good opportunity to diversify your shareholder base," something few would take seriously now. But the Japanese audiences—as promised, have been receptive to U.S. investor relations efforts, and Japanese corporations are beginning to show signs of developing their own programs of active, investor-oriented communications.

When American companies barnstormed Japan beginning half a dozen years ago, it was too often a case of an irresistible force meeting an immovable object. But today, U.S. companies are more savvy about dealing with Japanese investors, and that segment, in turn, has become more accepting, even tolerant, of the American means of communicating financial opportunities.

The listing issue aside, most IR executives interviewed say that any company committed to exposing its story and building familiarity with sources of capital on a global basis—rather than having to build an identity from scratch concurrent with efforts to raise funds—would be well-advised to seriously consider the long-term benefits of starting a program with Japanese investors. Contacts should be cultivated both domestically and abroad, they stress.

"Not every multinational company wants to be positioned in Japan—but most do," notes Knakal. "And if they do, they have to understand that a Japanese IR program is not a transaction, it's an investment."

Mary Lowengard is an independent consultant and writer specializing in investor and public relations.

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